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FROM OUR CONNING TOWER

AS we near the end of the year, my sympathy goes out to the poor crystal gazer who is so sedulously trying to peer far into 1952 to see what lies ahead for business. It isn't that his crystal ball is lacking in clearness. Rather it is that the ball is so full of everyday happenings of the kaleidoscopic present that he cannot see the future.

In ancient days forecasting was an exceedingly hazardous art as many an astrologer, prophet or soothsayer lost his head as a forfeit to the king on his failure to rightly foretell the future. Nowadays the "mystic brotherhood" is far more fortunate as the bad guesses of a forecaster are penalized only by a loss of prestige and, perhaps, business. The art of forecasting has always held a fascination for me but as it calls for nothing short of a speaking acquaintance with the oracle at Delphi I have never felt quite up to it, as the English say. However, in the field of human affairs it is pretty safe to suspect that nothing occurs unless somebody sets it in motion; that is why coming events usually do cast their shadows. The moral is that shadows on the wall bear watching. So with an eye cocked for significant shadows let us at the same time focus our attention on some of the more tangible factors which influence the course of the mortgage business.

FOCUS ONE

As business moves down the December runway for its take-off into a new year we cannot blink the fact that the "ceiling" for housing in 1952 bids fair to be lower than in 1951. The dominant influence affecting all business in 1952 will be mobilization. In the swirl of cross-currents which it will generate, both political and economic, the outlook for housing and home financing will be overshadowed by questions of government policy. Moreover, these policies will not be shaped "ideally" in an atmosphere unclouded by partisan interests. This imparts a "peculiarly artificial and unpredictable quality" to the market and emphasizes the uncertainty of the future. For example:

Is the ultimate target of the new monetary investigation, under the leadership of Congressman Wright Patman of Texas, a challenge to the retention by the Federal Reserve System of its charter as an independent government agency responsible to the Congress, and the people, for curbing inflation and maintaining sound money?

With election year upon us, how far will the VA and the RFC go in kicking up direct lending?

What influence will heavy subscriptions to the new, unconditionally guaranteed public housing bonds have on the mortgage market?

What disposition will be made of Senator Maybank's bill containing the proposal to allow up to 20 percent of reserves in the veterans' life insurance program to be used in purchasing home loans made from the VA's revolving loan fund?

Is the RFC planning to announce a liberal ten-year loan to institutional lenders for relending to builders? (The institutions would have ten years to sell the paper in a secondary market.)

If the sale of houses falls off too far in election year, is Regulation X to be scuttled completely on homes as a dose of economic benzedrine to stimulate home buying?

All such significant questions are woven into the warp and woof of the mortgage business and have a profound bearing on mortgage lending. Yet the answers are political, not economic, and must await the documentation of the future.

FOCUS TWO

The government of the United States is going into the red in 1952 to the tune of an estimated $6.3 billion, and 1953 will bring a probable deficit of $18-$23 billion. These estimates are from administration and congressional staff figures based on the assumption that a world war will be averted. The much-advocated "pay-as-we-go" goal is a dead pigeon for the duration of the mobilization unless there should be extremely sharp cuts in the expenditures for defense and foreign aid . . . which don't appear to be in the cards.

The record tax bill of more than $60 billion recently cleared by the Congress falls far short of putting the government within bowshot of a balanced budget. If expenditures are not whittled down and new tax sources exploited, the government must continue to borrow vast sums to pay its way and the national debt will pursue its astronomical climb. Most of the money will have to be procured from banks, thus augmenting the funds available to the public for bidding up the prices of wanted products, including real estate and construction.

The monetizing of government debt in increasing volume suggests that the danger of inflationary pressures of unpredictable power can be expected to become acute, as expenditures for defense armament surge to the peak now projected. Hence, many able economists and experienced business analysts envision a serious inflationary situation ahead. To circumvent an economic fulmination these men think that Congress must resort to a general sales tax to siphon off the surplus buying power from the lower ranges of income, where the bulk of the spending

takes place, while at the same time imposing drastic restraints on consumer credit. To those who predict continued inflation, this may spell austerity. But the alternative is boom and bust with the depression that historically follows a boom.

The action of Congress a few months ago, relaxing the terms on installment payments (Regulation W) and reducing the minimum down payments on houses (Regulation X), supplies one convincing piece of evidence that the problem of inflation is either not understood or the political fearlessness to deal with it is woefully lacking in that august body today.

FOCUS THREE

When the Bureau of Labor Statistics reported that the home builders of the nation had started 86,000 dwelling units during October, a total of housing starts was reached for the January-October period far in advance of the most optimistic 1951 predictions. Nearly all sections of the country shared in the production of new housing which helped to push home building hawk-high above the 850,000 starts set by HHFA as the 1951 target.

Entering the home stretch with 942,500 units already under construction in ten months leaves no question at all that the building starts for the year will go far beyond the million mark. This will make the third year in succession to hang up such a high score.

With all the current activity some builders are uneasy for fear the NPA and other government agencies might consider the present conditions a cause for fettering the industry with further restrictions and controls. This fear has been heightened by a report that the NPA and HHFA have openly discussed the possibility of a permit system going into effect around the first of the year, and also perhaps a lowering of the housing target from 850,000 to about 600,000 units. However, Defense Mobilizer Wilson and Deputy Manly Fleischmann have gone on record that home building will be maintained at 850,000 units a year, and not to my knowledge has that figure been changed by Raymond Foley, Administrator of HHFA.

Many of the builders and mortgage bankers have challenged this figure. Some of those with whom I have talked are doubtful that home building will exceed 700,000 to 750,000 starts in 1952, including public housing. Others say they cannot see how working under the CMP, and with public housing active, starts can top 600,000.

It is our opinion that the regulations governing the use of materials will not present any real hurdles for home builders, excluding those operating in the high-price area. While housing construction may be slowed down for a time, outside of defense areas, the single-family home is going to get a relatively good break. Washington regards home building with a kindly eye for the reason that

family dwellings are urgently necessary to the country's well-being under the pressures of a defense economy. People dote on new houses, and for the builder who can operate in the low-cost field the coming year should be a fairly satisfactory one.

At last the Federal Housing Administration has succeeded in cutting the red tape in Washington, and the big defense housing program, authorized by Congress last September, got under headway the week of December 2 when FHA field offices from coast to coast began selecting builders to put through the program.

FHA gave notice that its field offices in critical defense areas would on Monday, December 3, start accepting applications from builders who wish to participate in the construction of defense housing. These field offices have the prescribed forms and they are directed to issue commitments to successful applicants, providing their plans are in line with the government program for each defense area. I understand that so far the government has "programmed" about 50,000 dwelling units to be constructed on easier credit terms in some ninety congested defense production and army locations scattered all over the country. These and future defense areas may be "cut in" for more than 200,000 dwelling units before next year is over, which would mean considerably fewer homes for the rest of the country.

HHFA has rewritten credit regulation 3 which covers procedures and conditions for passing favorably on applications to build defense housing. "Fanny May" has advanced its deadline for accepting applications on advance mortgage commitments on defense housing from December 1 to December 16. FNMA has likewise relinquished its former requirement that advance commitments could be made only on one-half of the eligible houses in a development.

Rewritten credit regulation 3 cuts the time "programmed" housing has to be held for rent and puts more selectivity into the matter of approving builders' applications for part of the defense projects. Now rental housing has to be held but two years at the Federal rent ceiling in the instance of one- and two-family houses, and only four years in the case of multiple-occupancy housing. Before the rules were modified all rental housing had to be held at the Federal rent ceiling for five years. Housing for sale must be offered to defense workers only, and at not more than the Federal ceiling price, for at least sixty days after the house is completed. Houses planned for sale will be priced in brackets set by government order. Depending on what defense area they are in, two-bedroom homes will be priced from $7,000 while three-bedroom houses will carry price tags in Indianapolis and Hartford of $11,500.

Builders are not going to find building defense housing too easy. A builder under the program must satisfy FHA that he is capable of completing the job he applies for and he must also state the size of the units he proposes to build in terms of the number of rooms and bedrooms, and the value he offers either for sale or rent. The proximity of the housing to the defense operation, the adequacy

of suitable transportation to community and commercial facilities, and adequate utilities and street improvements are all factors which will be considered in processing applications.

All signs indicate that FHA will be snowed under by thousands of applications from builders who have been rarin' to go ever since the Housing Act of 1951 became law on September 1, 1951. It has been noised about that the government is worried over the hesitancy of mortgage investors to enter such defense areas as Aiken, Idaho Falls and Paducah. If this hesitancy persists, increased activity in direct lending by government agencies may be expected, as we have previously mentioned in our bulletins.

It appears to me that while mortgage money is still on the tight side in many sections, particularly construction loan money, it is less a barrier to housing construction than the threatening bottlenecks in building materials made from essential metals and the reported short supply of improved lots.

Many builders, by reason of the uncertainties bearing on the supply of a wide variety of metal products other than structural steel, and a tough mortgage market for construction loans, draw back from embarking on the development of new areas because of the heavy commitments that are required. Moreover, any development on a large scale calls for new homes that can be sold for prices within the $12,000 limit set by present credit restrictions.

FOCUS FOUR

The Board of Governors of the Federal Reserve System estimated the purchases of new and existing houses in 1951 at two million units involving aggregate expenditures of $18.6 billion. This compares with sales in 1950 of approximately 2.2 million units totaling $20.7 billion. For the first six months of 1951 about 500,000 new units were sold and between 725,000 and 775,000 existing units, so notwithstanding the slump in the transfer of houses during recent months it appears reasonable to assume that when the total is cast for 1951 the actual sales will exceed the estimate.

In 1950 nonfarm mortgages of $20,000 or less totaled $16 billion. For 1951 it now seems assured that the final figure will be quite close on the heels of the 1950 aggregate. At the end of September home mortgages recorded for the nine months showed a total of $12,248,000,000, which would leave a volume of $3,750,000,000 to be recorded during the last quarter of the year if 1951 is to equal the highest volume ever recorded for any one year.

Despite the expected decline in the construction of new housing units in 1952 to the target set by the government of 850,000, the volume of home mortgages for next year should compare favorably with the average recordings for the years 1945-1950 of a little more than $12 billion for each year.

The size of the average home mortgage at the end of July 1951 was $5,700 compared with the average of $5,200 in 1950. The average for 1952 may well be $6,000, which would mean that about 2.1 million mortgages would have to be recorded to meet the average of $12 billion for the past few years. However, I should like to add the proviso that if political expediency dictates a revision upward in housing construction the volume of mortgages in 1952 might reach a figure of $13 billion, or more.

FOCUS FIVE

In discussing the outlook for mortgage funds we hear it said that the mortgage market is improving and that it has shaken off the hysteria of last spring when the long-term Victories of 1967-72 sank to a low of 96 28/32, on May 21. But government bonds had another sinking spell the day before Thanksgiving as offerings continued to drift into the market with no ready buyers. The yield on the longest outstanding issue - the bank-ineligibles of 1972 - crept up to a 2.71 basis as the issue was marked down to 96 1/2, a new low. Similar declines were registered by the other long-term issues. Evidently the central bank is unfazed by the present decline because of the small volume of offerings. The money managers would rather have the market attain stability by its own power, so my bank acquaintances tell me.

If the mortgage market has improved it would appear that the improvement is more psychological than actual, as far as FHA and VA lending activity is concerned.

At the Mortgage Bankers Association meeting in San Francisco last September one of the speakers pointed out that as of September 1 the life insurance companies still had a backlog of mortgage commitments in the neighborhood of $4 billion and the mutual savings banks, around $1 billion. By now, I presume, these commitments have been substantially reduced though I understand some institutional lenders have 1950 commitments extending into 1952. In any event neither the life companies nor the savings banks will do much new lending until these commitments are pretty much out of the way.

Money like any other commodity demands its price in the open market. However, on VA and FHA mortgages the cheap money rates have been perpetuated by government edict. The law of supply and demand has not been allowed to work in the financing of these loans on the conjecture that raising interest rates on covered mortgages would have inflationary effects, as well as an unfavorable political reaction where VA loans are concerned. This illogical theory, or so mortgage bankers say, has upset the apple cart for that large segment of mortgage lenders operating almost exclusively in the area of insured and guaranteed loans.

There is practically no market for VA mortgages except through "Fanny May" and a rather limited market for FHA mortgages at the present time. Confusion and uncertainty have reigned in this field of financing for the past ten months

and as yet no corrective action has been taken by the government to ameliorate the situation contrived by it - nor is it likely to do so.

Regarding interest rates - from what T. B. King, Director, Loan Guaranty Service, Veterans Administration, had to say in his address at San Francisco, there will be no change in the VA interest rate soon, if ever. Neither was there any encouragement from the other government agency officials who were at the MBA meeting that interest rates on FHA will be upped.

Some lenders, however, profess to see a light breaking through the overcast. They believe that there will be a loosening in the market as the heavy volume of prior commitments is absorbed. W. A. Clarke, Philadelphia mortgage banker and recipient of the MBA Distinguished Service award in 1950 and again in 1951, is reported as predicting at San Francisco that by December the backlog of prior loan commitments of life insurance companies and other organizations will have been absorbed and they would "cease taking bicarbonate of soda" for disturbances of the last six months.

While I am not wholly in accord with Mr. Clarke's prediction it is my opinion that with the increasing volume of funds from internally generated sources and savings deposits showing a consistent growth, the mutual savings banks may have more interest in FHA mortgages, at par, than they have had in the past ten months. The appetite of the life companies should also improve as it seems to me they will have to move into the government-insured program to take care of their mortgage requirements, but the life insurance companies and the savings banks won't be as large a market for mortgages in the future as they have been in the past. With the shift in their portfolios from bonds to mortgages about worked out, they can be looked to by the mortgage financing industry only to the extent of the new money they apportion to mortgages plus the money available from amortization and pay-offs.

FOCUS SIX

Despite the "Accord" arrived at last March between the Treasury and the Federal Reserve, following their friction over credit and interest rate policy, a new monetary inquiry is currently underway. This new subcommittee was appointed last April by Senator Joseph C. Mahoney, Wyoming, chairman of the Congressional Joint Committee on the Economic Report. Its mission is to investigate general credit control and debt management and it is under the leadership of Congressman Wright Patman, of Texas, as chairman. The designation of Wright Patman to head the inquiry into the Treasury-Federal Reserve controversy is nothing less than maladroit. He is "top banana" among the inflationists in Congress and his public conduct never fails to implement the impression that he looks upon the Federal Reserve System, with its anti-inflationary attitude, as an avowed antagonist of society.

It seems rather extraordinary that another monetary inquiry would be launched

so soon after the Douglas subcommittee report covering about the same ground. The Douglas report, released on January 13, 1950, brought to light the significant fact that the Federal Reserve had clashed with the Treasury on postwar administration of the easy money policy as far back as 1945. The Douglas report also "rubbed out" any doubt that the reason the Federal Reserve had postponed taking steps to curb inflation on various occasions during the 1945-49 period was because of the Treasury's refusal to go along.

Congressman Patman has revealed that the motive for a new monetary investigation at this time is the reoccurring friction over credit policy and public debt management. This statement bears out the "hush hush" rumors reaching the outer world from Washington that all was not well between the parties to the March Accord. However, in the eight months since the Accord was established it has undoubtedly had a salutary effect upon the inflationary climate.

Congressman Patman begins his investigation under a miasma of distrust and we believe his report will be aimed at "debauching" the prerogatives of the Federal Reserve System as an independent government agency. As recently as June 27, he declared on the floor of the House that it was "a shame and disgrace" and a violation of "a sacred obligation" for the Federal Reserve to permit government bonds to drop below par. Patman's public record leaves no doubt as to where he stands regarding the inflationary policies he would advocate for the Federal Reserve after it had been made "sufficiently responsible to the Executive."

For those in the real estate-mortgage lending-home building industry who want unlimited expansion in home building financed on excessively easy mortgage credit, and for some mortgage bankers who would like to see a pegged market on government bonds at a fixed interest rate, Congressman Patman probably appears a man of courage. For many others, including the writer, the thought of Wright Patman, boastful inflationist, getting out an open-minded and balanced report borders on the preposterous.

Because of all this, our role, in no small degree, should be a politically conscious one. It is important to keep informed on what occurs amid the confusions of Washington and to study the implications it has for mortgage financing. We hope the dark magic which bedevils the years divisible by four, will not turn 1952 into a year fouled up by policies of political expediency.

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